

Credit Ratings and the Rating Process

Presented by:

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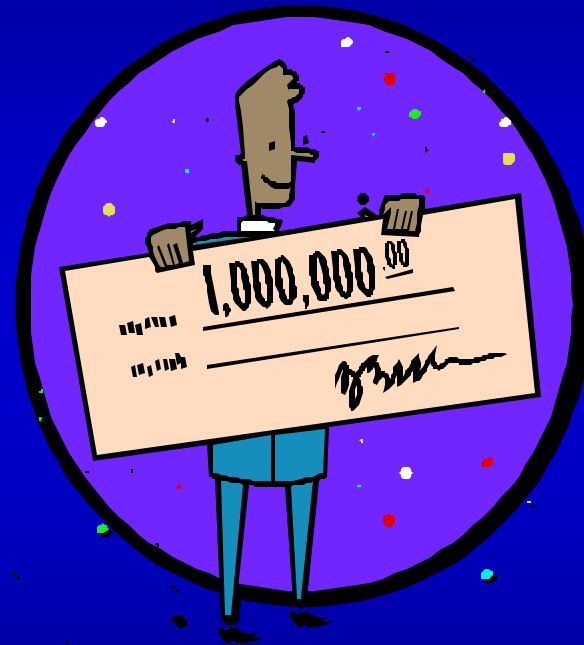
Fitch Ratings

California Debt and Investment Advisory Commission

Fundamentals of Debt Financing – May 6 & 7, 2004

What is a rating?

- Grade summarizing the willingness and ability to repay bonded debt as scheduled
- Ability to pay - quant
- Willingness to pay - qual
- On schedule
- Letter grades
- Sub-categories of grades
- All ratings relative to United States Treasuries



A rating is NOT:

- A judgment or statement regarding any aspect of public policy
- A political statement in favor of or against a particular person or administration
- A dictate of what should be done or how a matter should be handled

Why bother with a rating/rating agency?



- Increases investor acceptance
- Current economic environment
- Current capital market environment
- **BOTTOM LINE:** Lower interest cost

Types of bonds rated

- Long-Term
- Short-Term
- Tax-supported
- Revenue
- Major Municipal Industries
 - General government
 - Utilities - Water/Sewer/Sanitation
 - Healthcare
 - Transportation
 - Housing
 - Land-secured
 - State ratings

Rating Agencies

- Fitch Ratings, Inc.
- Moody's Investor Service
- Standard & Poor's
- Dominion
- Others? – NRSRO
- Bond Insurers



The Rating Process

- Step I: Decision and documents
- Step II: Rating presentations – meetings, conference calls, and/or site visits
- Step III: Rating committee, communication, press release, report
- Appeal process, if necessary
- Sureveillance

Other Rating Agency Products

- “Look See”
- Credit Assessment
- Descriptive Reports

Step I – Decisions and Documents

- Credit Assessment? Rating? Bond insurance?
Rating & bond insurance?
- Which rating agency?
- Which bond insurer?
- Basic document requirements
- Supplemental data – getting to the story

Step II – Presenting Data – Q&A

- Meetings
- Conference calls
- Site visits
- Maintain client relationships

Step III – Rating Committee & Rating Dissemination

- Committee organization
- Majority rules
- Contact issuer
- Release press release
- Distribute report
- Bond Buyer interviews

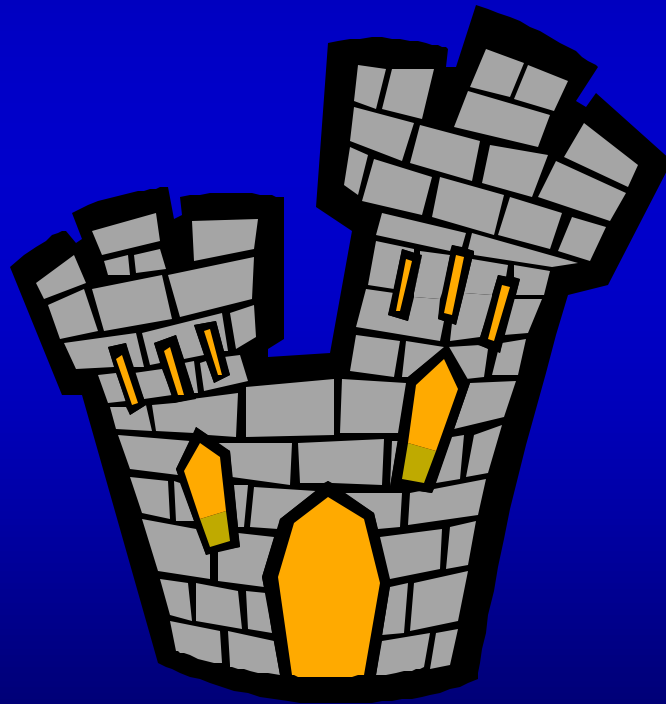
Appeals & Surveillance

- Issuer rating appeal
- Routine & problem-specific surveillance



Elements of Tax-supported Credit

➤ Deal structure



Elements of Tax-supported Credit

Deal structure

➤ Debt and capital plan

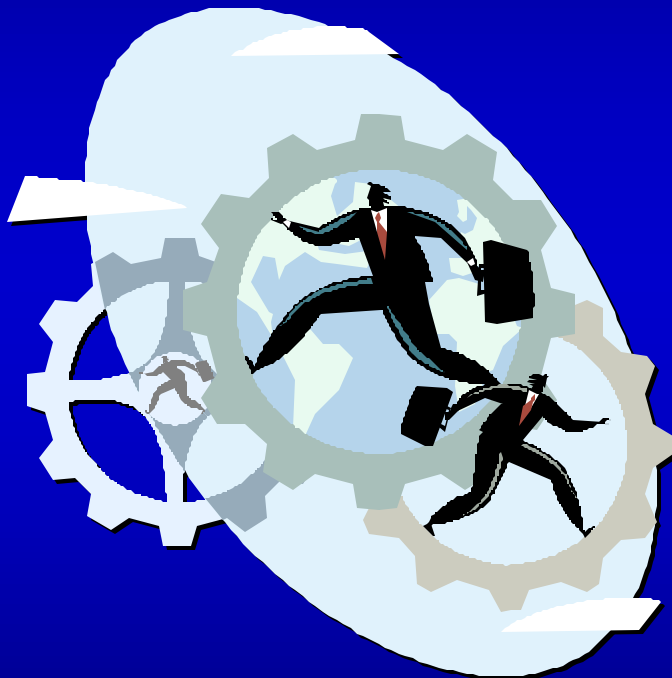


Elements of Tax-supported Credit

Deal structure

Debt and capital plan

➤ Economy



Elements of Tax-supported Credit

Deal structure

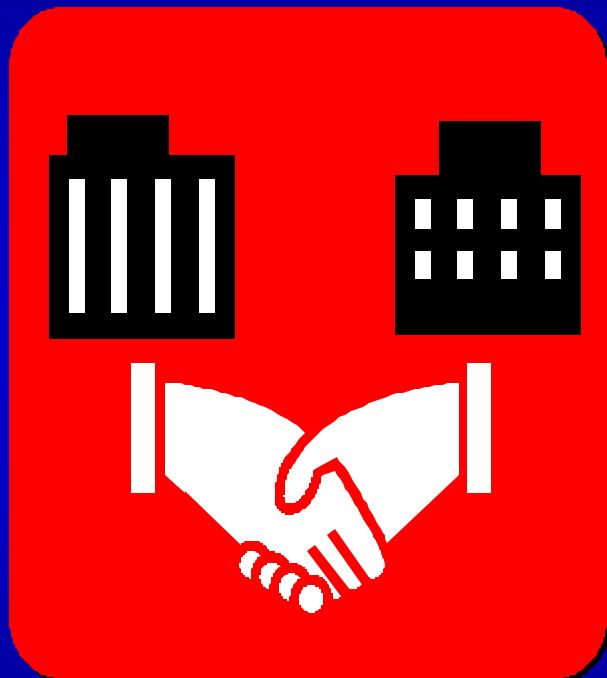
Debt and capital plan

Economy

➤ Finances



Elements of Tax-supported Debt



Deal structure

Debt and capital plan

Economy

Finances

➤ Management

Management / Political Risk

- Written, adopted policies
- Policy monitoring, implementation
- Most difficult piece to analyze
- Live examples – parking garage, utility rates

How do rating agencies stay in business?

- Rating fees
- Sale of research
- Maintain role as third party review

